

COOPERATIVES -  
TOOLS FOR MODERN PENNSYLVANIA FARMERS

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WHAT A CO-OP IS

A cooperative is a business formed by a group of people to obtain certain services for themselves more effectively or more economically than they can obtain them individually. These people own, finance, and operate the business for their mutual benefit. Often by working together through such a cooperative business member-owners obtain services not available to them otherwise.

Cooperatives perform one or more of three kinds of functions: Marketing products; purchasing supplies; and providing such services as electricity, credit irrigation and domestic water, and artificial insemination.

In certain respects, cooperatives are organized like other businesses and operate in the same way. They usually incorporate under the laws of the state in which they have their main office. They draw up by-laws and other necessary legal papers. Members elect a board of directors. The board hires a manager and makes general policies. The manager runs the day-to-day business.

A COOPERATIVE DEFINED<sup>1/</sup>

"A cooperative is a voluntary contractual organization of persons having a mutual ownership interest in providing themselves a needed service(s) on a nonprofit basis. It is usually organized as a legal entity to accomplish an economic objective through joint participation of its members. In a cooperative the investment and operation risks, benefits gained, or losses incurred are shared equitably by its members in proportion to their use of the cooperative's services. A cooperative is democratically controlled by its members on the basis of their status as member-users and not as investors in the capital structure of the cooperative."

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<sup>1/</sup> Cooperative Criteria, Service Report 71, Farmers Cooperative Service February, 1965.

## COOPERATIVES ARE PEOPLE

A cooperative is not an easy solution to all economic problems. A cooperative is a business operation. It must be organized, financed, and operated just as any other business on Main Street. A co-op cannot assure that a farmer, upon joining, will immediately solve his problems; nor can a co-op guarantee to turn a marginal farm into a successful commercial operation.

When a cooperative is organized and goes into business it can increase competition and improve the service of the existing businesses dealing with farmers in the area served by the new cooperative.

A member of a farmer cooperative must do business with his cooperative if he expects it to be successful. Far too often producers have used their cooperative as a dumping ground for their low quality or excess products. As a result, the cooperative has not been as successful as it could have been. Even though it may continue to operate, it cannot achieve its potential if members do not use it as fully as possible.

## COOPERATIVES ARE COMPETITIVE BUSINESSES

A cooperative is a business enterprise; it is a business that is organized, owned, and controlled democratically by people who have joined together voluntarily in a contractual arrangement to provide themselves with needed supplies and/or services.

Most agricultural cooperatives are chartered under state laws and operate under the same federal and state business laws and regulations as other firms.

The primary objective of a cooperative is to further the economic welfare of its members. Economic welfare does not merely refer to financial savings (lower prices) or increased monetary returns (higher prices). It cuts much deeper and goes to the relationship of man to man in his economic life. Quality of product, a needed service, ownership control, increased equity in his cooperative business and the satisfaction of self-help are all important benefits of a cooperative and sometimes of more importance than the direct financial benefit which results from the cooperative enterprise.

## COOPERATIVES HAVE REPRESENTATIVE CONTROL

The method of government of a corporation is representative and is, in some respects, analogous to the representative democracy we employ to govern our state and national government.

The governing body of all types of corporations is the board of directors. Members of the board of directors of all types of corporations are elected by shareholders and these boards in turn elect the officers of the corporation.

# AMERICAN FORMS OF BUSINESS

## A Comparison

| CHARACTERISTICS            | TYPES OF BUSINESS ENTERPRISE                          |  |                                       |   |
|----------------------------|---|--|---------------------------------------|---|
|                            | INDIVIDUAL  | PARTNERSHIP  | ORDINARY CORPORATION                  | COOPERATIVE CORPORATION   |
| FUNCTIONS                  | To buy or produce goods for sale or to render service | Same as individual                                 | Same as individual                    | To purchase supplies, market products or render needed services |
| OBJECTIVE                  | Profit for the individual                             | Profit for the partners                            | Profit for the investing stockholders | Profit for the members and patrons that use the co-op           |
| USERS                      | The public  | The public   | The public                            | Members and/or patrons  |
| OWNERSHIP AND CONTROL      | The individual  | The partners                                       | Dollars invested common stock         | Members--usually one vote each                                  |
| MANAGEMENT                 | The individual  | The partners                                       | Board of Directors                    | Board of Directors  |
| LEGAL STATUS               | Usually unincorporated                                | Legal agreement between associates under State law | Incorporated under State law          | Incorporated under state law. (Farm credit federal charter)     |
| LIABILITY                  | Assets of the individual                              | Assets of each partner                             | Assets of the corporation             | Assets of the cooperative                                       |
| RETURN ON CAPITAL INVESTED | Unlimited   | Unlimited  | Unlimited                             | Limited by law 8%   |
| WHO GETS NET PROCEEDS?     | The individual  | The partners                                       | The stockholders                      | The patrons in proportion to use                                |

Boards of directors for all types of corporations are the policy determining bodies of the corporation, and also the bodies which, either generally or specifically, authorize business transactions.

Boards of directors of any corporation are, therefore, analogous to the Congress, state legislature or city council.

Theoretically, control of the investor-oriented business enterprise is in the stockholders on a capital ownership basis. As a rule, in a general corporation one vote toward the election of directors is given for each share of common or voting stock the stockholder owns. However, the various devices of holding companies, voting trusts, and the like, permit economic domination over the business by a relatively small group.

#### COOPERATIVES HAVE DEMOCRATIC CONTROL

The democratic control feature of a cooperative commonly referred to as one-member one-vote is a corporate device being used in its original form, since, historically, all members of corporations had only one vote.

Historical accounts of cooperatives report that in the late 1800's some farmers gave up control of their cooperatives and lost their investment in their cooperative when they abandoned the cooperative principle of democratic control.

It is reported that farmers were led to believe that in order to attract investments and large farmers they needed to provide for control of the cooperative on the basis of investment. The new firm operated for the benefit of its controlling investors not its patrons.

Most state cooperative statutes passed in the 1920's were very specific in protecting the democratic control features of agricultural cooperatives as a result of these disastrous past experiences.

The democratic control feature of a cooperative is well recognized. Some writers have used the term democracy to mean a society in which the people who compose it are their own governors, much as the policyholders of a mutual insurance company are their own insurers or members of a marketing cooperative collectively provide their own marketing facilities.

The membership of a cooperative has the responsibility to periodically check to make certain that their cooperative is still democratically controlled. The test is a simple one. Do the people (member-stockholders) rule?

Such variations in equality of voting are but one factor to be considered in determining the cooperative character of an organization. The others are distribution of savings and limited return on equity capital. Certainly minor inequalities in control, if sanctioned by the democratic action of a majority of the membership and permitted by statute, do not prevent an organization from being a cooperative.

## DIRECTORS HAVE DEFINITE RESPONSIBILITIES

When a member of a cooperative is elected by his fellow members to a position on the board of directors, he faces a two-fold challenge: (1) To represent stockholders or members of the business; and (2) He is vested by law with the responsibility to reasonably conduct the affairs of the business for the welfare of the cooperative.

As a board member he has legal, general, and moral responsibilities in representing stockholders or members of the cooperative.

What does the word responsibility mean? Responsibility is the obligation of an individual to carry out assigned activities to the best of his ability.

The acceptance of an obligation by an individual to perform work on or carry out assignments creates his responsibilities. Therefore, when the member of the cooperative who has been elected a director accepts the position, he implies that he recognizes the responsibility of the position, the specific responsibilities set forth in the cooperative's by-laws, and agrees to discharge these responsibilities to the best of his ability.

A board of directors is the governing body of a corporation legally created under state statutes and issued a "charter". The state statutes give the directors authority to exercise all the powers of the corporation, limited only by any conditions set forth in the statute and the corporation's by-laws.

Members of the cooperative elect a director to a position of trusteeship. In effect, they legally place their financial interests in their cooperative in the hands of the director they elect.

## DIRECTORS REPRESENT PEOPLE, NOT DOLLARS

A cooperative director does not make decisions for himself but for the total membership of his cooperative. A director has the duty to vote for the best interest of the total membership, not for his own personal interest. In this respect, his power to vote as a director is entirely different from that of a general corporation board member who may quite properly vote to serve his own interest as a major investor or an agent for a few major investors in the firm.

## MEMBERS DESERVE THE DIRECTORS THEY ELECT TO THE BOARD

Members of a cooperative deserve the directors they elect to represent them and their interest in their cooperative and, once elected, cooperative directors deserve the support of the membership that requested that they take time from their farming operation to manage the affairs of their cooperative.

## THE JOB OF A COOPERATIVE DIRECTOR IS SPECIAL

The position of director in a cooperative differs from that of a director of an investor-oriented business. Directors of non-cooperatives are usually the principle owners of the firm, and they may serve not only as a director of their firm but also as an executive or manager.

The director of a cooperative is elected democratically without regard to his investment in the cooperative. In fact, the total investment of the president of a cooperative usually needs to be only one membership fee or one share of stock. The president of an agricultural cooperative is prohibited by statute and by-laws from owning sufficient voting shares of stock to assure his reelection to the board, let alone assuring him of the presidency. The cooperative's ownership is not controlled by the board of directors as is often the case in the general corporation.

## DIRECTORS EXERCISE FINANCIAL CONTROL

The directors of a cooperative have important financial functions. They have the responsibility of returning the net margins or assigning the losses to the patrons on a patronage basis.

Members, if they are going to control their cooperative, must provide a reasonable amount of the necessary capital.

## DIRECTORS INFORM MEMBERS

The director of a cooperative has the responsibility of keeping membership informed as to the activities of their cooperative. This responsibility is shared, however, with members who have the responsibility of seeking out this information by reading reports and attending meetings.

The members of the cooperative are also responsible for the prudent use of information they receive about their cooperative. A cooperative gives a report of its affairs, activities, and future plans to all members. Non-cooperatives may need only to inform the major investors of the firm of the firm's activities and future plans. These major investors may all be members of the board of directors of a general corporation.

## COOPERATIVE DIRECTORS ARE ALSO CO-OP MEMBERS

The director of a cooperative must recognize that, except when the board is in formal meeting, his authority is equal only to the rights and authority of any individual member of their cooperative. This applies to each director of a cooperative regardless of the position he may hold on the board.

Directors of investor-oriented firms by virtue of their ownership control of voting stock are the major owners, major decision makers, major controllers of the firm, and personally may hold the votes necessary to back up his position.

As individuals, the members of the board of directors of a cooperative have no authority to act for, or bind the corporation, unless they are duly elected or appointed to do so in a legal meeting of the board of directors.

#### MEMBERS CONTROL COOPERATIVES

As a rule, members lose control of their cooperative because they abdicate their responsibility to participate in the democratic representative process that governs and controls their cooperative. The law provides for an annual meeting at which time the board will report to the membership on the operation of their co-op. Members have the responsibility to participate in annual and membership meetings. The term "members" is used in cooperatives to refer to holders of common voting stock.

The democratic control principle of a cooperative simply means that each person is entitled to only one or a minute number of votes. In a cooperative, people, not dollars, vote. The democratic principle of the cooperative exists because of the positive mandate of the cooperative statute which has been used for incorporation. The corporate papers of the cooperative will say one member - one vote or any other voting arrangement members have established for themselves.

If a statute contemplates one vote for each share of common stock, pure democracy and control can exist by limiting ownership of each member to only one share or by requiring all members to own an equal amount of voting shares of stock. Most local cooperatives limit each member to one vote.

It does not follow that the absence of absolute equality in voting prevents an organization from being a cooperative. There are cooperatives in which the members have democratically decided and so set forth in their corporate papers that voting privileges in their cooperative be based upon a condition such as patronage. Thus, some cooperatives not only provide for the distribution of savings on a patronage basis but also for voting and control on a patronage basis.

Thus the democratic control principle is employed in a particular cooperative as the owners democratically decide within the limits of the law under which they are incorporated and their corporate papers. It may be one-member one-vote, a limited maximum number of votes depending upon the number of shares owned, or a number of votes based on patronage. Under the Ohio Cooperative Marketing Act no member of a stock cooperative may have more than 5% of the votes.

Some statutes provide for, and some cooperatives have, outside directors who may not meet the requirements of membership--such as being a producer of agricultural products. Such positions are limited in number and designated to represent the general public.

## COOPERATIVE EMPLOYEES HAVE A UNIQUE POSITION

A distinctive feature of the cooperative is the closer relationship between the business entity and its patrons than that characterizing other forms of business. This closer relationship between the cooperative and the patrons is governed by the provisions of the statute, articles of incorporation, by-laws and membership contract.

Cooperatives are people, people working together. Employees must not only sell goods and services by informing customer-owners of the cooperative principles but must use tact and judgement as they communicate between the co-op, its owners and the public. To many people, the cooperative is its employees.

Cooperative management must know (1) principles of cooperatives and (2) principles of management.

Cooperative employees must understand that the firm is a cooperative if:

1. Savings above the cost of doing business are returned to patrons in proportion to the use the individual patron made of his cooperative.
2. Control of the firm is in the hands of its members as individuals rather than as investors.
3. The firm limits the interest paid on equity capital to an amount less than 8%.

Cooperative employees must understand how their cooperative meets these three principles and be able to explain this to customers.

Cooperative employees should have some knowledge of the law under which the cooperative is incorporated. This will give him knowledge of who is eligible for membership, opportunities and limitations of the cooperative firm.

## DIRECTORS OF YOUR COOPERATIVE MUST BE FARMERS

Today farming is a fulltime occupation. Cooperative directors need assistance from management in order to discharge their responsibilities with dispatch. Cooperative employees must collect data, both pro and con, to assist directors in making the decisions necessary for cooperatives to succeed.

The articles of incorporation will set forth the purpose and other information required by law.

The by-laws are the directions or rules established by the membership for the board to follow in managing the cooperative.

## COOPERATIVES ARE CREATORS OF CHANGE

The cooperative employee must always be willing to look ahead and help chart a successful course for the cooperative through the uncharted sea of our future dynamic economy.